Fully costing your services

Community Action Southwark

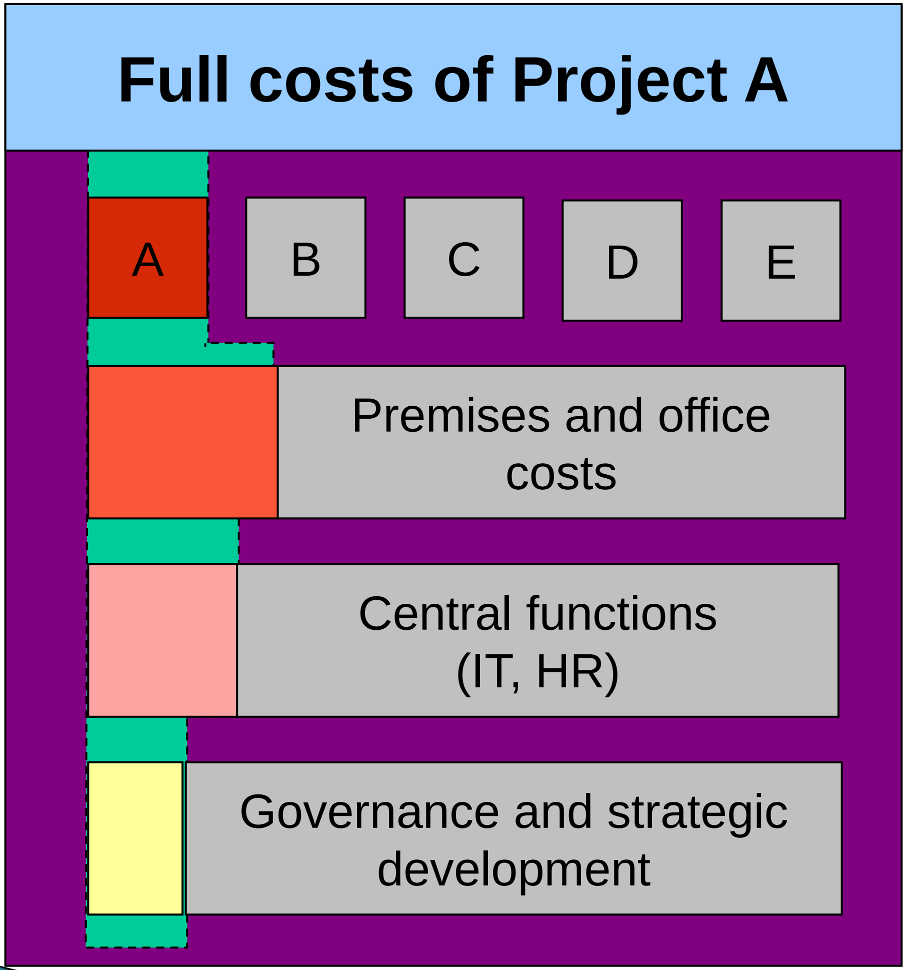
Key financial concepts

- What is your income likely to be?
- What is your likely expenditure?
- What are your capital and start-up costs?
- Are there any tax implications?

What is Full Cost Recovery?

- Full Cost Recovery means:
  - ensuring that all costs involved in running a service are recovered…
  - …through securing funding or charging at a level which includes a relevant proportion of organisational costs

Full Cost Recovery



The direct cost of the activity

+

The appropriate proportion of all the other costs in the organisation

=

Full cost of the activity

Why use Full Cost Recovery?

- Increases understanding of your financial position and the true cost of activities
- Improves management of your organisational finances
- More accurate costing of project budgets = better quality bids
- Allows for more informed decision-making when considering new projects
  - Is the project viable?
  - True cost of the project or service
- Can help improve financial sustainability

Key Terms

Direct Costs

Indirect Costs

Overhead

Cost Driver

Revenue Cost

Capital Cost

Unit Cost

Cost Allocation

Variable Costs

Fixed Costs

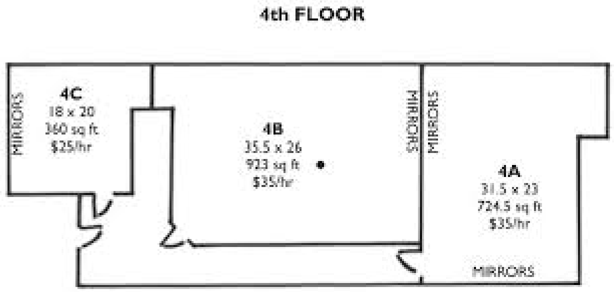
FCR method overview

1. Identify your projects
2. Identify direct project costs
3. Identify overheads for your whole organisation
4. Allocate the overheads to each project
5. Calculate total cost of each project
6. Calculate the unit cost

Allocating Overheads

- **Allocation:** apportioning/sharing of overheads between services
- **Cost driver:** factor that causes a change in the consumption of resources

- What cost drivers might be used to allocate costs?
  - Floor space occupied
  - Headcount (number of staff)
  - Staff time
  - Time usage of building
  - Usage of particular overhead item



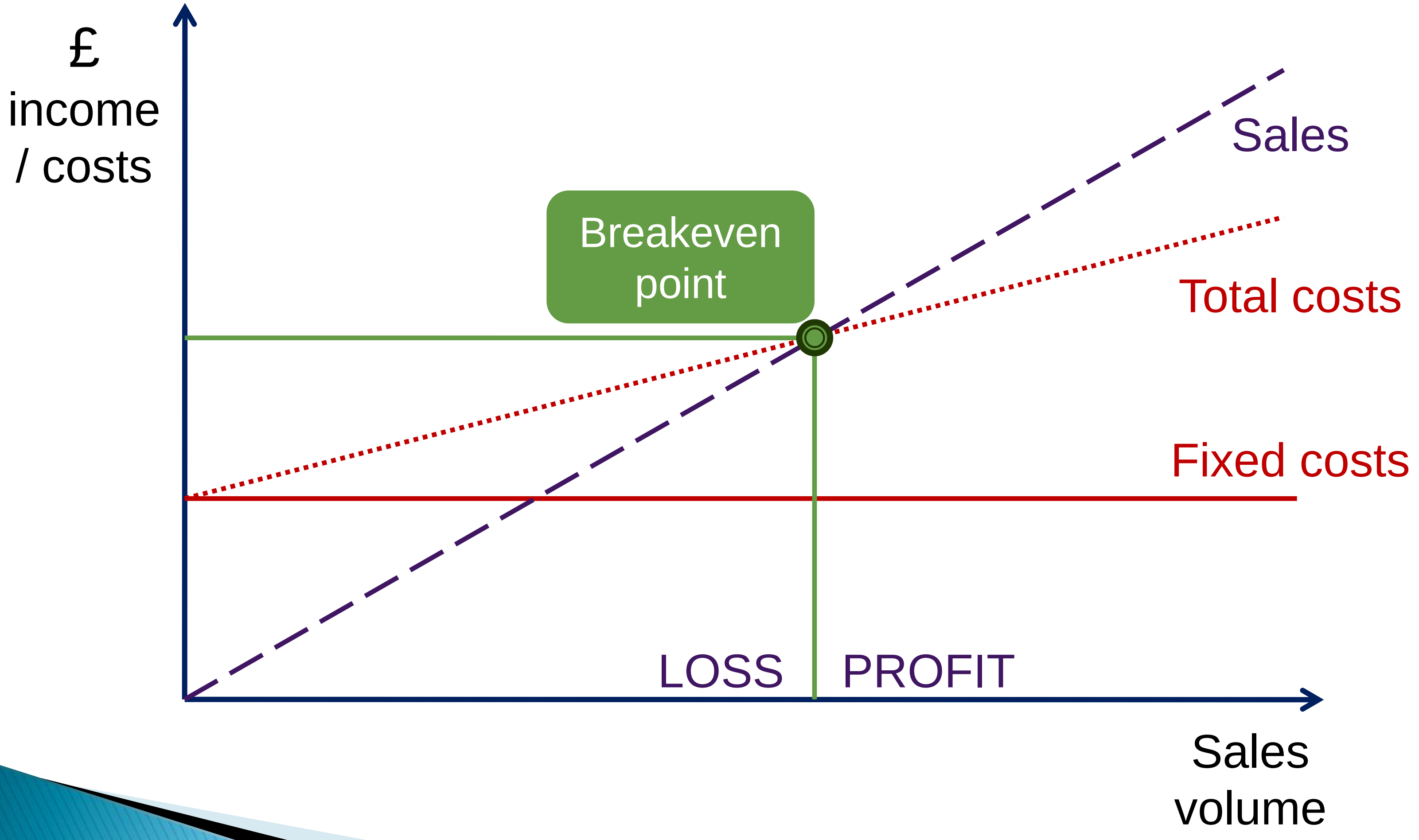
Community Action Southwark

Calculate Unit Costs

- **Unit Cost:**
  - The cost to your organisation of providing each unit of production or delivery
  - What **unit of measurement** is appropriate for services in your organisations?

Community Action Southwark

Income and expenditure



Price and value

Cost – the amount of money that is spent to make a particular item

Price – the amount of money that an item is sold for

Value – what your customer believes the product/service is worth to them

Pricing strategies

Mark-up

Going rate

Perceived value

Market oriented

Psychology of value

Pricing schemes